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Report of the Commission on Enterprise, Business Facilitation and Development on its second session

held at the Palais des Nations, Geneva,
from 1 to 5 December 1997

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INTRODUCTION

1. The second session of the Commission on Enterprise, Business Facilitation and Development was held at the Palais des Nations, Geneva, from 1 to 5 December 1997. In the course of the session, the Commission held 3 plenary meetings (7th to 9th meetings) and 10 informal meetings.

Opening statement

2. The **Secretary-General of UNCTAD**, referring to the role of UNCTAD's Commissions in general, said that expert meetings were intended to provide expert inputs to the Commissions, which would in turn assist the Trade and Development Board in its role as a decision-making body. The Commissions should have a permanent role to play and should have mechanisms to allow them to follow up decisions between sessions. They should become partners with the secretariat in the implementation of the work programme.

3. With regard to agenda item 3, he drew the attention of the Commission to the recommendations of the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development, which had taken place in Geneva from 23 to 25 July 1997. Some 110 national experts from 65 countries, as well as representatives from several United Nations agencies, other international bodies and NGOs, had participated in the Expert Meeting, which had focused on four major issues: (i) channels for Government-private sector dialogue; (ii) policy coherence for SME development; (iii) SME support mechanisms and agencies; and (iv) the role of professional organizations in Government-private sector dialogue and SME support.

4. The Expert Meeting had made a number of recommendations for attaining effective dialogue, mainly that dialogue had to be an interactive process and had to involve a balanced representation of all sectors of the business community. Effective dialogue could promote a coherent policy framework. The challenge before the Commission was to translate these recommendations into practical suggestions for implementation at the country level.

5. Concerning item 4 of the agenda, he noted that seven sub-items would have to be addressed, but he hoped that there would be enough time for practical discussions on the expert meetings' conclusions. The transit issue was of great importance all over the world in terms of revenue. During his last visit to the European Commission, he had been informed that lost income resulting from transit problems was estimated at US$ 5 billion each year for the European countries alone. The recommendations that had emerged from the Expert Meeting on the Use of Information Technologies to Make Transit Arrangements More Effective should therefore be looked at carefully and practical ways to implement them at the country level should be examined. Four of the seven sub-items were related to trade efficiency and to the activities launched at Columbus (Ohio) in 1994. The time had come to seek a comprehensive approach to the issues involved and, in the case of Trade Points, to take stock of the experience acquired. He concluded by inviting delegations to reflect on the role of the Commission and its relationship with the secretariat and to ensure that the Commission's conclusions aimed at concrete actions.

Chapter I

ENTERPRISE: ISSUES RELATING TO AN ENTERPRISE DEVELOPMENT STRATEGY

(Agenda item 3)

6. For its consideration of this item, the Commission had before it the following documentation:

"Progress towards strategies for enterprise development: Note by the UNCTAD secretariat" (TD/B/COM.3/9);

"Report of the Expert Meeting on Government and Private Sector Roles and Interaction in SME Development" (TD/B/COM.3/6-TD/B/COM.3/EM.2/3).

7. The **Director of the Division on Investment, Technology and Enterprise Development** (DITE), introducing item 3, said that globalization reflected a number of fundamental changes in the process of production and in the way firms competed in the global economy. One was the growing knowledge-intensity of production, which was breaking down the distinction between "traditional" and "high tech" industries. Knowledge and knowledge-based skills and capabilities were what distinguished dynamic and competitive firms of all sizes.

8. Within this context of more knowledge-intensive production, firms had begun to compete not only in terms of price but also on the basis of their ability to sustain a process of innovation. With liberalization, this innovation-based mode of competition had diffused worldwide and broken down another traditional distinction between firms which were focused on the domestic market and those that exported.

9. Small and medium-sized enterprises had fewer resources of their own to meet these new challenges, and their ability to articulate their needs was weaker than that of larger firms. Enterprise development strategies, particularly those concerned with SMEs, must thus be conceptualized as a set of integrated elements whose interactive effects were critical to the success of the overall effort. The role of public-private sector dialogue, considered by an Expert Meeting in July 1997, was one such element, but there were several others, including the need for a well developed regulatory system and a strong accounting capability in the SME sector. DITE's accounting programme was working with the entrepreneurship and innovation training programme - EMPRETEC - to build this capability.

10. SMEs depended upon a host of other support programmes to sustain their ability to undertake the many small changes that ensured their competitiveness. The provision of services to SMEs had been strengthened through clustering, notably in the development of incubators and technology parks. The role that networking, partnering and clustering might play to strengthen the SME sector in developing countries and economies in transition was a subject for further policy analysis and required the preparation of case studies which highlighted best practice.

11. With respect to the Commission's request to report on the possibility of creating a network of research bodies and other support agencies working in the area of enterprise development, research had shown that such networks already

existed and that a new one would not be needed. The Expert Meeting on public-private sector dialogue had requested that UNCTAD provide a place on its web site where those who had participated in the Meeting might continue their exchange of views, and the web site was being developed to this end.

12. Concerning the request to report to the Commission on DITE's cooperation with other United Nations agencies and international organizations in the area of enterprise development, she noted that much work on strengthening the EMPRETEC programme and the pilot network of centres for innovation and enterprise development in Africa built upon the close links established with ITC, UNDP's Enterprise Africa programme, ILO, UNIDO and Canada's IDRC. DITE had begun to explore ways and means of spreading enterprise development concepts and programmes to economies in transition through its cooperation with Directors of EMPRETEC programmes in Latin America and Africa and with OECD through its training centre in Istanbul. The UNCTAD-ECE Task Force on enterprise-development-related issues in economies in transition had a role to play there as well.

13. The spokesperson for the **Asian Group and China** (Sri Lanka) said that the development of SMEs had been accorded an important place in the economic and social strategy of developing countries, and Governments were now attempting to address their problems through specific policies. He did not favour uniform policies or strategies to develop or assist SMEs, as there were wide differences among developing countries in terms of stages of development and industrial tradition.

14. His Group recognized the need for an effective dialogue between government and the private sector at all levels, and it drew attention to the importance of the quality of the working relationship between them. He highlighted the importance of finance, training, innovation, technology, market information and business support for SME development and stressed the overall impact of positive government policies. Policy coherence for SME development implied a favourable overall policy framework which depended not only upon government policy but also on a variety of macro-economic factors and international factors, such as the provisions of international agreements.

15. The Asian Group and China supported the need for a framework of proactive policies for a broad range of support mechanisms and business development services based on integrated programmes. The secretariat document raised a number of relevant issues in this respect.

16. Owing to changes in demand associated with new systems of globalized production, inter-firm cooperation had assumed great significance. Many firms found that such cooperation was necessary in order to lower costs and to become more innovative. International institutions could play a leading role in this area, especially to encourage networking of firms of developed countries with those of developing countries. He underlined the importance of effective dissemination of information relating to opportunities for cooperation among firms.

17. Future work by UNCTAD should include case studies of effective mechanisms to promote dialogue at all levels and to examine the implementation of the subsidiarity principle, the impact of liberalization on the development of SMEs, the role of Governments in promoting inter-firm cooperation, including clustering, networking and technology partnerships, between and among SMEs, as well as with larger enterprises, and a review of the coherence between trade and micro policies and its impact on SMEs.

18. The spokesperson for the **African Group** (South Africa) said that the Commission's discussions should take into account firstly the international dimension of the issues raised and secondly African reality, in which some countries were dealing with issues of clustering, strategic partnership and technology transfers, while others were still grappling with issues of training, information, finance and access to modern technology. There was still need for donor assistance.

19. The Expert Meeting on Government and Private Sector Roles and Interactions in SME Development had set solid foundations for addressing the roles of Governments and the private sector, the need for coherent policy frameworks and effective support measures. In general, his Group supported its recommendations, though much work remained to be done by UNCTAD to assist developing countries in this field.

20. Further work was also needed on the issues of subsidiarity, coherence between trade and micro policies and the effects of liberalization on SME development.

21. The report entitled "An overview of activities in the area of inter-firm cooperation" (UNCTAD/ITE/EDS/2) was an extremely useful document. Two key elements for the African Group emerged: firstly, there was a lack of analytical and policy-oriented work on inter-firm cooperation involving firms from developing countries; secondly, Africa had been left behind in matters of strategic alliances, inter-firm technology cooperation and especially information technology. This illustrated the fact that developing countries were still struggling with strategies to promote sustainable enterprise development. Technological capacity-building would not take place without the necessary international support measures, and further work on clustering was also necessary.

22. He stressed the crucial role of the international community in providing a conducive policy environment as a corollary to stable and consistent national policies. The information made available on research bodies was useful, and UNCTAD should begin setting up a directory of such databases. He encouraged the development of UNCTAD's presence on the Worldwide Web, and requested that those who had no access to the Web be provided with information in printed format.

23. He called upon the development partners to provide resources to ease budgetary constraints so as to allow UNCTAD to participate in important events related to enterprise development. His Group welcomed the extension of EMPRETEC programmes to an additional 10 African countries and pointed to the need for technical cooperation in many other areas, hoping that UNCTAD would be in a position to comply with requests received.

24. The spokesperson for the **Latin American and Caribbean Group** (Peru) said that the secretariat's documentation highlighted important elements for SME development strategies. There were fundamental social and economic reasons for focusing on SME development, since SMEs contributed to sustainable growth and assured a better distribution of wealth, thereby providing social equity. Both the redefinition of the role of the state and the process of industrial conversion had led to an increase in the number of SMEs. These SMEs were aware of the need to increase their competitiveness and drew upon their characteristic asset, namely flexibility. SMEs developed through their own efforts but faced important problems in their expansion, particularly in opening up new markets. Management skills and knowledge to respond to legal and regulatory requirements and gain access to finance and technology were among the areas where they faced problems.

25. Latin American and Caribbean countries had included SME development in their national agendas, and they encouraged UNCTAD to work in the following areas: the provision of SME services, especially in rural areas; an assessment of the efficiency of business support services; and the impact of obligations arising from international agreements, including the Uruguay Round agreements, on national policies for SME support.

26. The representative of **Luxembourg**, speaking on behalf of the **European Union**, said that, in a world characterized by globalization and liberalization and stimulated by technological progress, the market economy had become the norm, and enterprises played an increasingly important role in the development process. This situation posed new challenges to enterprises, and particularly in developing countries and in countries in transition, the role of the different actors in the process needed to be reconsidered. Policy coherence was needed to strengthen the enterprise sector and increase competitiveness, and the public/private-sector dialogue should be given particular attention in this respect.

27. For SMEs to participate more effectively in the international economy, they had to focus on key factors such as improving their capacity to adapt to structural changes, technological innovation, and inter-firm cooperation and collaboration. In that connection, the European Union's development cooperation with developing countries and countries in transition was designed to assist the private sector, a major development actor today, in establishing inter-firm cooperation.

28. The representative of the **Russian Federation** said that the analytical and practical work done by the secretariat was helpful, especially the work on changing trends and their impact on enterprise development. The need to reform state enterprises was providing opportunities for SME development, and the key tasks in that process were to provide an enabling legislative framework, improve management structures and restore links between enterprises. He proposed that an expert meeting on inter-firm cooperation should be convened in 1998.

29. The representative of **Cuba** said that important transformations were taking place in his country's economy. The disappearance of the Eastern European markets had made it necessary to take a series of measures to improve efficiency and integrate into the world economy. The reform of the constitution had made possible the existence of private property, the restructuring and reduction of ministries and the transfer of responsibility for the management of material and financial resources to the entrepreneurial sector. The re-establishment of monetary and fiscal equilibrium had been achieved by reducing subsidies to enterprises. The new tax law and financial system allowed enterprises to retain profits, while the new investment law permitted investment. With respect to SMEs, they included mixed enterprises, agricultural cooperatives and small land-owners, as well as artisanal organizations. In the case of small landowners, both the Government and the private sector was providing assistance in respect of credit and marketing. Cuba had also organized a chamber of commerce, whose function was to provide information to the entrepreneurial sector concerning business opportunities, markets and information technology. Finally, for trade facilitation and enterprise development, it was necessary to promote a favourable international environment, without any interference in the sovereign affairs of States, without application of restrictive business practices, without the use of business practices inconsistent with the principles of international law, and without unilateral or extra-territorial legislation.

Informal meetings

30. The Commission pursued its consideration of agenda item 3 in informal meetings.

Action by the Commission

31. At its closing plenary meeting, on 5 December 1997, the Commission adopted its agreed conclusions on agenda item 3. (For the text of the agreed conclusions, see annex I below.) It also agreed to annex to its report the Chairman's summary of the informal discussions under agenda item 3. (For the text of the summary, see annex III below).

Chapter II

SERVICES INFRASTRUCTURE FOR DEVELOPMENT AND TRADE EFFICIENCY ASSESSMENT

(Agenda item 4)

32. For its consideration of this item, the Commission had before it the following documentation:

"Services infrastructure for development and trade efficiency" (TD/B/COM.3/10)

"Proposal for a Trade Efficiency Assessment Methodology (TEAM)" (TD/B/COM.3/10/Add.1)

"Report of the Expert Meeting on the Use of Information Technologies to Make Transit Arrangements More Effective" (TD/B/COM.3/5-TD/B/COM.3/EM.1/3)

"Report of the Expert Meeting on Telecommunications, Business Facilitation and Trade Efficiency" (TD/B/COM.3/7-TD/B/COM.3/EM.3/3).

33. The spokesperson for the **Asian Group and China** (Sri Lanka) said that government initiatives to assist in the setting-up of businesses revolved around finance, the aim being not only to increase the availability of finance but also to reduce its cost. Traditional financial institutions tended to favour large enterprises at the expense of SMEs, and in that connection he stressed the importance of micro finance, particularly for his region where 70 per cent of the world's poorest lived. He recalled the innovative and pioneering micro finance initiative launched by the Grameen Bank in Bangladesh and now widely replicated throughout the region. The Asian group and China supported UNCTAD's initiative designed to help make micro finance a sustainable activity.

34. UNCTAD's initiative to promote private sector participation in micro credit was a very practical one, though it was important that the programme should not rely solely on one source of funding. The support of the Bank and Government of Luxembourg was appreciated, but it should be complemented by private sector support.

35. The two Expert Meetings on the Use of Information Technologies to Make Transit Arrangements More Effective and on Telecommunications, Business Facilitation and Trade Efficiency had been successful and had resulted in practical recommendations which should be endorsed by the Commission. He expressed his appreciation for the fact that more than 250 experts from the telecommunications meeting had participated in ITU's Telecom Inter@ctive meeting, and this type of inter-institutional cooperation should be seen as a model for future endeavours.

36. The Asian Group and China attached particular importance to the development dimension of the work under way on electronic commerce, and that work should receive greater visibility. He noted that the discussions undertaken on electronic commerce in the context of the High-level Segment of the forty-fourth session of the Trade and Development Board had been of high quality and had benefited significantly from the work of the Expert Meeting on telecommunications. UNCTAD had taken a pioneering stance in electronic commerce, though the strategy followed

by UNCTAD in the area of trade efficiency should now be updated taking into account the most recent developments in this area, including the legal dimension. Finally, the trade efficiency assessment methodology represented an excellent basis for measuring the implementation of the Columbus recommendations, setting up Trade Points and taking advantage of new opportunities. He therefore expected that adequate extrabudgetary funding would be made available for these activities.

37. The spokesperson for the **African Group** (South Africa) said that the secretariat report (TD/B/COM.3/10) rightly pointed out that the services infrastructure for micro enterprises in developing countries, and in particular LDCs, was weak and required considerable support and development. UNCTAD was helping to provide support for and development of the appropriate services in areas where it had a comparative advantage through practical initiatives such as the organization of an international micro finance market. Although this type of work had not yet been field-tested in Africa, his Group was keenly interested in the financing issue and in the need to explore all possible avenues to strengthen countries' own capacities.

38. With regard to the lack of recognition or coordination between the formal banking sector and the delivery agents of finance, further research should be done on the various aspects of this issue, including the impact that conflicting policy advice or demands from the international community could have in this regard. The results of UNCTAD's work in this field should be made widely available as soon as possible.

39. With regard to MFIs, it was hoped that all MFIs in developing countries and especially in LDCs would have the possibility of accessing new funds through UNCTAD's work, and that they would all be provided with the information and questionnaires referred to in the secretariat's report. His Group supported the suggestions mentioned in paragraphs 32 and 33 of the report.

40. Concerning the expert meetings, the transit issue and the issues of access to information, technology and connectivity remained of greatest importance to Africa. Africa did not want to be sidelined as far as electronic commerce was concerned.

41. Trade efficiency was another key concern for African countries, but UNCTAD's capacity to implement practical programmes was limited due to funding constraints. UNCTAD's intergovernmental machinery must be used to advance understanding of the policy adjustments necessary to support trade efficiency in a country.

42. He welcomed the trade efficiency assessment methodology, which would allow countries to receive an overall picture of their efforts and enable UNCTAD to provide not only specific technical cooperation projects or intergovernmental policy fora but also a clear link between international policy dialogue and overall national implementation. The methodology was a demand-driven tool that needed support as soon as possible.

43. Finally, he suggested that an African regional Trade Point forum be held on the basis of the subregional ones, and pointed out that some ASYCUDA projects were not sustainable because of the lack of training and human resources.

44. The spokesperson for the **Latin American and Caribbean Group** (Peru) emphasized the fact that micro enterprises and SMEs were an instrument to fight poverty, and the informal sector should have access to the same opportunities as larger enterprises in order to become a competitive source of goods and services. Micro

enterprises and SMEs needed to have their own credit mechanisms, as their initial capital came from family savings and was not sufficient to ensure continued growth. The role of UNCTAD should be to investigate the possibilities of establishing links between private sector investors and micro financing institutions and providing access to micro credit and micro insurance.

45. With regard to trade efficiency, the most important areas of activity had been identified, namely customs, transport, banking and insurance, telecommunications and business information. The tremendous advance of information technology and its impact on services in these areas had created a need for international cooperation, especially in the field of regional integration and its legal aspects (intellectual property rights, international regulations, and payment security). He therefore expressed support for the recommendations made by the Expert Meeting on Telecommunications, Business Facilitation and Trade Efficiency, especially paragraph 7 of document TD/B/COM.3/7.

46. He took note of the proposed trade efficiency assessment methodology and recognized the need to assess the quality of a country's services infrastructure. He also recognized the advantage of having SMEs participate in the evaluation, and he noted the voluntary character of the exercise. The need to publish trade efficiency indices did not seem evident, but a mechanism should be created to link the evaluation exercise with technical assistance proposals designed to improve national trade efficiency.

47. His Group supported the technical assistance provided by UNCTAD through EMPRETEC, ASYCUDA and the Trade Point programme. In particular, it supported the proposal to create an international federation of Trade Points to promote cooperation and coordination among Trade Points and enhance the participation of developing countries in world trade of goods and services.

48. Finally, expert meetings should be convened on three topics, namely specific financing modalities for micro enterprises and SMEs; electronic commerce and its impact on the process of regional integration; and the legal implications of electronic commerce, including intellectual property, authentification, effects on contractual law, regulation and security of payments.

49. The representative of **Luxembourg**, speaking on behalf of the **European Union**, expressed continued support for the trade efficiency programme as it had developed since UNISTE at Columbus (Ohio) in October 1994. At the same time, the Commission's session represented the right time to think about the new role of UNCTAD in mobilizing international institutions in the field of trade efficiency, and it would be important in that connection not to try to do too many things at once.

50. With regard to micro finance, in November the Council of Ministers of the European Union had adopted a resolution on that issue. Micro finance was a fairly new instrument in the battle against poverty and the development of the private sector in developing countries, offering micro services to the poorest groups of the population which had been isolated from traditional service providers. The Grammeen Bank considered the poor as responsible partners, and micro credit institutions were the proof that sustainable employment and real development could be based on individual energy, responsibility and autonomy. These institutions succeeded where traditional public programmes failed, and she supported UNCTAD's initiative aimed at creating an essential direct link between private investors and micro finance institutions in developing countries.

51. Concerning trade efficiency, UNCTAD had had a number of successes with ASYCUDA, ACIS and TRAINMAR. However, the Trade Point programme was more ambitious than those technical programmes, as it helped countries to integrate into the world economy. In that connection she suggested that Trade Points should quickly become financially autonomous to ensure that they continued catering to private sector needs. The services offered by the Trade Point could be sold and thus allow the Trade Point to finance itself. The Trade Point programme should undergo an external evaluation within a reasonable time frame to see what should be improved. Finally, the creation of a legally autonomous Trade Point federation would promote financial independence and clarify the status of the individual Trade Points. Viability should be one of the most important conditions for membership of the federation.

52. The representative of **Guatemala** stressed the importance of the poverty problem, which affected one third of the world's population, above all women in developing countries. For them, micro credit represented the hope of being able to alleviate their poverty by expanding their micro businesses, and she therefore expressed support for the UNCTAD initiative aimed at promoting the organization of an international micro finance market.

53. In her region, NGOs had successfully transformed themselves into micro finance institutions and micro banks which had succeeded in becoming financially autonomous through donations and could therefore expand their services for micro enterprises. Improved access of micro finance institutions to the international market would lead to sustainability and interaction between private sectors in developing and developed countries.

54. The representative of **Poland** described the dynamic growth of SMEs and their key role in her country's national economy. The development of small and medium-sized enterprises was to a large degree dependent on the availability of development capital, usually based on self-financing, and on access to external sources. In Poland, the ability of businessmen to finance themselves was still limited, especially in the industrial sector, and the credit terms offered by banks were one of the main barriers to the development of SMEs.

55. The problems of government policy towards SMEs for the years 1998-2000 were currently being discussed in the context of the ongoing globalization of the world economy and the liberalization of Poland's trade, especially with the European Union countries. The goals of the new policy were likely to include increasing the competitiveness of the SME sector, achieving a real increase in investments in SMEs, and expanding SME exports. The SME sector was one of the pillars of the Polish economy, and its role would increase in the future.

56. The representative of **Japan** said that micro credit was an important and effective instrument for the alleviation of poverty in developing countries. He agreed with the UNCTAD secretariat that the lack of information flows between micro banks and potential investors constituted an obstacle for the development of micro credit. In its activities in the micro credit field, UNCTAD should work in close cooperation with international organizations such as IFAD and UNDP.

57. Information technology was developing rapidly, but lack of infrastructure and human capacity hampered its development in many developing countries. He recognized the relevance of UNCTAD work in establishing Trade Points, but noted that lately Trade Points had come to be regarded as instruments for electronic commerce rather than as a tool for information exchange. UNCTAD work should

concentrate more on the role of information, including in the context of electronic commerce for development, and on capacity-building, especially in developing countries.

58. The representative of **Switzerland** expressed her country's interest in UNCTAD's analysis and proposals concerning micro finance. Her country had in fact financed a World Bank study on sustainable banking for the poor. Of 900 MFIs, only 12 had succeeded in becoming relatively viable, while the others were weak and needed technical assistance, which was generally provided in the context of donors' coordination fora. Micro savings deposits amounted to US$ 19 billion, which greatly exceeded the existing loan portfolio of US$ 7 billion, and donors gave priority to improving client access to existing resources. UNCTAD's role in this area, where market forces were traditionally strong, should be repositioned.

Informal meetings

59. The Commission pursued its consideration of agenda item 4 in informal meetings.

Action by the Commission

60. At its closing plenary meeting, on 5 December 1997, the Commission adopted its agreed conclusions on agenda item 4. (For the text of the agreed conclusions, see annex II below). It also agreed to annex to its report the Chairman's summary of the informal discussions under agenda item 4. (For the text of the summary, see annex III below).

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

61. The second session of the Commission on Enterprise, Business Facilitation and Development was opened on 1 December 1997 by Ms. Janina Del Vecchio (Costa Rica) on behalf of Mr. Manuel Dengo (Costa Rica), Chairperson at the first session of the Commission.

B. Election of officers

(Agenda item 1)

62. At its 7th plenary meeting, on 1 December 1997, the Commission elected its Bureau as follows:

Chairperson:	Mr. Ali Said Mchumo	(United Republic of Tanzania)
Vice-Chairmen:	Mr. Petko Baev	(Bulgaria)
	Ms. Heather Booth di Giovanni	(United Kingdom of Great Britain and Northern Ireland)
	Mr. Jean-Marie Noirfalisse	(Belgium)
	Mr. Dilip Sinha	(India)
	Mr. Trevor Spencer	(Trinidad and Tobago)
Rapporteur:	Mr. Sek Wannamethee	(Thailand)

C. Adoption of the agenda and organization of work

(Agenda item 2)

63. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.3/8. Accordingly, the agenda for the second session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Enterprise: issues relating to an enterprise development strategy
4. Services infrastructure for development and trade efficiency assessment
5. Provisional agenda for the third session of the Commission
6. Other business
7. Adoption of the report of the Commission to the Trade and Development Board.

D. Provisional agenda for the third session of the Commission

(Agenda item 5)

64. At its closing plenary meeting, on 5 December 1997, the Commission approved the provisional agenda for its third session (see annex IV below).

E. Adoption of the report of the Commission to the Trade and Development Board

(Agenda item 7)

65. Also at its closing plenary meeting, the Commission adopted its draft report (TD/B/COM.3/L.4 and Add.1), subject to amendments to the summaries of statements, and authorized the Rapporteur to finalize the report in the light of the proceedings of the closing plenary.

ANNEXES

Annex I

AGREED CONCLUSIONS ON ISSUES RELATING TO AN ENTERPRISE DEVELOPMENT STRATEGY

1. The Commission reconfirms the importance of promoting and strengthening the enterprise sector, in particular micro, small and medium-sized enterprises (MSMEs), so that countries benefit from the significant contributions that they can make to the effective functioning of the market economy and to the generation of employment, growth and sustainable development. The MSME sector is critical for developing countries, particularly the least developed countries, since it provides the major share of employment.

2. The Commission, taking into account the recommendations put forward by the experts on government and private sector roles and interaction in small and medium-sized enterprise development in their report (TD/B/COM.3/EM.2/3), agreed on the following specific recommendations on agenda item 3:

A. Addressed to the international community

3. Globalization and liberalization require enterprises to function in an increasingly competitive environment. The implications of these processes on enterprise development should be examined further. International cooperation measures for strengthening enterprises in developing countries, in particular least developed countries, and in economies in transition, including financing, technological capacity-building and human resource development, should be strengthened. It would also be important to ensure policy coherence at the international level. The international community should encourage cooperation between firms in developed countries and those in developing countries and economies in transition in order to promote trade and technology transfer.

4. International financial institutions, including regional banks, and other sources of international financing should develop and support specific programmes and initiatives to build and maintain private sector lending capacity to MSMEs.

5. The international community should work to support national regulatory environments that foster and encourage MSME growth. A key activity could be supporting, upon request, the evaluation of the impact of current policies and legislation, both positive and negative, upon MSMEs.

6. The international community is urged to strengthen its support for training and capacity building in the MSME sector, for example for small business representative organizations, non-governmental organizations and government support institutions, in particular in least developed countries.

B. Addressed to Governments

7. Governments should consider appropriate measures to strengthen the participation of MSMEs in the public-private sector dialogue with a view to making it representative at all levels of government. These may include designing effective mechanisms for dialogue which are all-inclusive, collecting information regarding MSMEs and building capacity among MSME representative associations by *inter alia* supporting research and training.

8. Governments should consider the ways of improving policy coherence between macro, micro and trade policies by strengthening dialogue at all levels of government from the national to the local level and between government departments and ministries.

9. Where appropriate, Governments should take into consideration the principle of subsidiarity, i.e. identifying who does what best and at what level, in designing and providing MSME support services. Governments should cooperate closely with the private sector, including representative bodies, and utilize the latter's potential for providing MSME services on a viable basis. It should also promote, where appropriate, partnership and networking among service providers, whether government or private sector, to contribute to the efficiency and effectiveness of the support mechanisms at all levels of government.

10. Governments might consider providing support for inter-firm cooperation which can be a useful tool in facing the pressures of increasing global competition and in enhancing technological capability and innovativeness, which are essential inputs for the development and growth of enterprises, particularly MSMEs.

C. Addressed to UNCTAD

11. The Commission reaffirms UNCTAD's contribution to policy analysis on enterprise development and in helping enterprises cope with the new trade environment. It recognizes the role of UNCTAD as an intergovernmental forum for the exchange of best practices related to enterprise development. The Commission recognizes the importance of close cooperation between UNCTAD and other United Nations bodies and international organizations in the implementation of its work on enterprise development. Such activities need to be properly supported and the Commission requests the secretariat to:

(a) (i) Undertake case studies and prepare a report on cross-country experiences of the most effective mechanisms to promote dialogue, with particular reference to mechanisms for achieving balance, transparency, integrity of representation, and effective impact on policy formulation and implementation;

(ii) Assess and prepare a report on the impact of the interaction between trade and micro policies on MSMEs, including export support services relating to non-traditional exports;

(iii) Study and report on ways and means by which Governments can implement the principle of subsidiarity by analysing the roles of enterprise support agencies and services as well as delivery mechanisms at all levels of government, as well as the private sector and NGOs. This should include an assessment of the best practices relating to how

local authorities in different countries stimulate and support MSMEs. Recommendations on the role of local authorities in this regard should be made;

(iv) Report to the Commission on suggestions, including for possible technical cooperation pilot projects, for MSME support services, particularly geared to the needs of rural enterprises, in cooperation with relevant organizations and interested member States;

(b) (i) Continue examining the impact and implications of the challenges and opportunities of globalization and liberalization in the post-Uruguay Round trading environment on enterprise development;

(ii) Promote the continued expansion of the EMPRETEC programme network, endeavouring to promote a regional balance; national EMPRETEC programmes could also provide the technical assistance necessary to prepare MSMEs for inter-firm cooperation, clustering and networking initiatives;

(iii) Support, where possible, the graduation of economically viable enterprises with growth potential from the informal to the formal sector, with particular reference to the relevant regulatory environment.

12. The Commission decides to convene the following expert meetings:

(i) The impact of government policy and government/private action in stimulating inter-firm partnerships regarding technology, production and marketing, with particular emphasis on North-South and South-South linkages in promoting technology transfers (know-how, management expertise) and trade for SME development;

(ii) The role of support structure - public (ministries, regional governments and agencies) and private (e.g. business associations) - in promoting and sustaining, clustering and networking for SME development, including policy responses to problems for SMEs in access to finance.

Annex II

AGREED CONCLUSIONS ON SERVICES INFRASTRUCTURE FOR DEVELOPMENT AND TRADE EFFICIENCY ASSESSMENT

1. The Commission reconfirms the importance of continued work on trade efficiency issues and new financial services, in particular micro finance, and reaches the following conclusions:

A. New financial services for development

Addressed to the international community and to Governments

2. The Commission acknowledges the important impact of micro finance in poverty alleviation. It recognizes the importance of expanding financial services in the area of micro enterprise development, as they contribute to providing the basic means for empowering individuals, especially women, to launch micro enterprise activities. The Commission concludes that Governments and other organizations should work together with UNCTAD to create an enabling environment for micro finance institutions (MFIs) and that to work with MFIs in mobilizing funds from sources such as the international financial market is timely and important.

3. The Commission notes the important facilitating role UNCTAD can play in bringing together international asset managers, banks, micro finance institutions and Governments. This work could significantly contribute to the creation of an international market to promote development and should continue to be pursued. In this regard, the Commission calls on the international community to strengthen these efforts by providing financial support thereto.

Addressed to UNCTAD

4. The Commission considers that the work undertaken by the UNCTAD secretariat in demonstrating to international private investors that micro finance represents an important potential market for investment, and UNCTAD's efforts in creating and enhancing awareness among member States of the enabling environment for micro finance institutions, should be pursued in close cooperation with the competent bodies of the United Nations and other international organizations in this field, including existing national initiatives.

5. The Commission encourages UNCTAD to continue to promote private sector involvement and facilitate exchanges of experience between practitioners as well as between Governments, including among developing countries. The Commission also noted that the secretariat was not involved in micro finance operations, which are best left to field practitioners. Taking into account the work already undertaken by other institutions and organizations, the secretariat should continue to pursue its work in building up a database of viable MFIs. As part of its analytical work, UNCTAD should study the opportunities and challenges posed for MFIs in accessing such private sector funds and prepare a report for the next session of the Commission.

B. Trade efficiency

B.1. Expert meetings

B.1.1. *Use of information technologies to make transit arrangements more effective*

6. The Commission, taking into account the recommendations put forward by the Expert Meeting on the Use of Information Technologies to Make Transit Arrangements More Effective in its report TD/B/COM.3/5, agreed on the following specific recommendations:

Addressed to the international community

7. Effective transit arrangements are essential in the development efforts of land-locked and transit developing countries, especially LDCs. In this regard, the role that new information technologies could play in finding viable solutions was recognized. Efforts by the international community and Governments should take these new developments into account. The Commission encourages the international community to provide financial support for this activity, in particular the technical cooperation aspects.

8. The Commission notes the concerns of developing countries regarding the lack of participation of experts from their capitals in expert meetings. The Commission further notes the specific concerns expressed by LDCs in this regard.

Addressed to UNCTAD

9. UNCTAD should take into account in its future work the importance of using information technologies in enhancing the efficiency and effectiveness of transit arrangements. The importance of close cooperation with organizations involved in the development and maintenance of transit systems, in particular the Economic Commission for Europe, the European Community and regional groupings, was stressed by the Commission.

B.1.2. *Telecommunications, business facilitation and trade efficiency*

10. The Commission, taking into account the recommendations put forward by the Expert Meeting on Telecommunications, Business Facilitation and Trade Efficiency in its report TD/B/COM.3/7, agreed on the following specific recommendations:

Addressed to the international community

11. The Commission recognizes the value of the recommendations made by the experts, and stresses the specific needs of developing countries, especially LDCs, regarding access to international networks in general and to electronic commerce in particular; the development of physical infrastructure and human resources, as well as the use of existing or foreseen low-cost solutions (e.g. Internet, low earth orbit satellites), should be enhanced.

12. Recognizing the importance which electronic commerce will have for international trade and development, the international community should take into account and support UNCTAD's work in this area.

13. While basic business concepts such as the customer, goods and payment validation will not change, business and government practices are likely to change rapidly in such a fast-moving situation. Some of these changes will require intergovernmental action to ensure that there is a common understanding and, where appropriate, that clear guidelines are available to all traders and consumers.

14. The impact of electronic commerce will be different at the different stages of the trade process, for example business information on one hand and transaction documents on the other; in both areas, however, the importance of using open systems should be recognized.

Addressed to UNCTAD

15. The Commission requests UNCTAD to undertake analytical work on trade efficiency and prepare reports on the following topics, which can inform debate under item 4 of the provisional agenda for the next session of the Commission:

(i) The trade and development implications of proposals made to set up a "global framework for electronic commerce";

(ii) Policy issues relating to access to participation in electronic commerce;

(iii) Policy issues relating to human resource development for participation in electronic commerce and trade facilitation.

16. Further cooperation between the Trade Point Programme and the TRAINFORTRADE Programme would provide significant opportunities to train trainers, decision-makers and trade practitioners in the new techniques of international trade. Use should be made of distance learning tools in this context.

B.2. Trade efficiency strategy

17. The Commission, taking into account the strategy described in the background document produced by the secretariat (TD/B/COM.3/10), and taking note of the methodology proposed by the secretariat to carry out a trade efficiency assessment (TD/B/COM.3/10/Add.1), agreed on the following recommendations:

Addressed to the international community

18. A rapid external evaluation of the Trade Point Programme should be carried out as soon as possible in order to allow the secretariat to adjust and refine its work in this important area. Potential donors are encouraged to contribute to the financing of such an exercise.

Addressed to Governments

19. Governments should take appropriate measures to protect the names and logos used by the Trade Point Programme at the national level, with the assistance of UNCTAD. The Commission considers that the existing subregional and regional fora of Trade Points could contribute efficiently to such efforts. It also considers that the establishment of an International Federation of Trade Points could be useful in this regard. The views of the Trade Point Directors on these issues should be collected and made available to member States before these issues are considered further.

Addressed to UNCTAD

20. The Commission expressed its continued interest in the work of UNCTAD in the area of trade efficiency, in line with the UNISTE recommendations and the conclusions of UNCTAD IX, and requests the secretariat to:

(i) Continue to refine the development of its trade efficiency strategy and report on it to the next session of the Commission. In the case of the Trade Points, UNCTAD should continue its efforts to enable these to achieve financial self-sustainability as early as possible;

(ii) Continue to strengthen the inter-institutional cooperation based on complementarity in the area of trade efficiency, particularly with the International Trade Centre, the United Nations Economic Commission for Europe and the International Telecommunication Union. The Commission encourages the secretariat to develop similar cooperation with other institutions involved in electronic commerce, such as UNCITRAL and WIPO;

(iii) Pursue its cooperation with non-governmental actors, especially in the area of electronic commerce, which will be a central item of the first meeting of Partners for Development, to be held in Lyon, France, from 9 to 13 November 1998;

(iv) Carry out further consultations with member States to finalise the methodology for a trade efficiency assessment and to develop "trade efficiency self-evaluation kits" which could allow Governments to evaluate obstacles to trade efficiency at low cost. The secretariat is requested to report to the next session of the Commission on progress to this regard;

(v) The Commission supports the continued expansion of the Trade Point Programme, endeavouring to promote a regional balance. In this respect, the Commission welcomes the efforts by the secretariat to promote the establishment and functioning of Trade Points in Africa. It calls on the international community to support such efforts by UNCTAD;

(vi) UNCTAD should integrate new information technologies into its work to avoid being outpaced by developments in this field.

21. The Commission decides to convene the following expert meeting:

Capacity-building in the area of electronic commerce: human resource development.

Annex III

CHAIRMAN'S SUMMARY OF INFORMAL DISCUSSIONS UNDER AGENDA ITEMS 3 AND 4

A. Enterprise: issues relating to an enterprise development strategy

(Agenda item 3)

1. The informal discussions raised a number of important issues. These included public-private sector dialogue; the informal sector and the definition of micro, small and medium-sized enterprises (MSMEs); the provision of support services to MSMEs and the implementation of the principle of subsidiarity; the role of UNCTAD in MSME development; policy coherence between trade and micro policies; interfirm cooperation; and Empretec.

Public-private sector dialogue

2. Many speakers emphasised the importance of public-private sector dialogue and its contribution to policy coherence. It is important to maintain balanced participation in public-private sector dialogue to ensure that all interests are represented in the dialogue. Dialogue should contribute both to the formulation of policies and the assessment of their impact. Public-private sector dialogue needs to be transparent and structured so as to result in meaningful policy debate centred on an agenda and documentation which is publicised in advance and allows for adequate preparation by all parties to the debate and thus avoids the use of such fora to address individual concerns and interests. On the other hand, the need for fora in which such individual concerns could be aired was noted, as individual concerns may require government intervention to improve the general business climate for MSMEs. The timing of the public-private sector dialogue could be crucial, for example prior to the development of a policy framework for structural adjustment programmes.

Informal sector and the definition of MSMEs

3. For many developing countries, the informal sector remains an important, if not the most important, sector in the economy. A number of representatives expressed the view that recommendations directed towards the SME sector may not apply to the informal sector. It was stated that consideration of the informal sector and rural enterprises is essential if the realities surrounding enterprise development are to be understood. The smaller the enterprise, the more important it is to have an organization to represent it effectively in the dialogue with government.

4. There was appreciation of the fact that there is no single definition of what constitutes a micro, small or medium-sized enterprise. Most definitions look at employment figures rather than dollar values of sales, and the definitions depend on the sector in question, the technology used and conditions specific to the country. Micro and small enterprises are not synonymous with the informal sector. Micro enterprises are confronted with the same kind of competitive behaviour as larger enterprises. At the other end of the spectrum, the dividing line between self-employment and the informal sector is also vague.

5. Some delegations felt that the issue of measures to foster the graduation of informal sector enterprises to the formal sector, which had been flagged by experts in their discussions, deserves more attention from UNCTAD, in collaboration with other agencies such as the ILO which have substantial experience in this area. It is ILO's objective to organize individuals and micro and small companies that are active in the informal sector so that their voice can be heard in the dialogue with government on the one hand and to facilitate their integration into the formal sector on the other.

Support services and the principle of subsidiarity

6. It was pointed out that MSMEs depend on services provided by others since, unlike large enterprises, they do not have the internal capability to undertake many activities vital to their success, such as research and development or marketing. It is not a question of their being weak, but a question of size. Business associations and sector-based associations are often important vehicles for the delivery of business services. Local-level organizations might also be more effective in delivering services since they are closer to their clients' needs. It was suggested that UNCTAD look at prototype institutions which provide the necessary support and harness other initiatives to create this capacity for delivery. One representative mentioned the important role of local government in supporting MSMEs. His country has formulated a national policy framework, and support agencies have been set up. His Government welcomes research on federal and local support agencies which could reach rural enterprises.

7. The merits of the principle of subsidiarity (identifying who does what best and at what level) in the provision of services to MSMEs were recognized by a number of countries. But the application of the principle and its subsequent decentralization have often led to fragmentation of services in some countries. The size of the country therefore has to be taken into consideration. Countries would benefit from advice on how to implement the subsidiarity principle and clarification on what activities are best provided at the federal or local level.

Role of UNCTAD in MSME development

8. A number of member States raised the issue of UNCTAD's niche in enterprise development. The mandate for UNCTAD's area of expertise is to help enterprises cope with the new trade environment. The secretariat explained that, in its work, DITE focuses on the interrelationship of enterprise development with such issues as globalization and liberalization, the new trade environment, innovation and competitiveness, entrepreneurship development, technology transfer and technological capability-building, investment, inter-firm linkages and accounting. UNCTAD is not undertaking major activities in areas where other organizations have a comparative advantage. At the same time, whenever UNCTAD's work in the area of enterprise development involves mandates and expertise available in other organizations, the latter are invited to cooperate with UNCTAD. In this respect, delegates urged UNCTAD to look for synergies with other United Nations agencies in its technical assistance work and to diffuse best practices it has developed in other countries.

9. The need for UNCTAD to communicate more effectively the nature and findings of work in the area of MSME development was mentioned in light of a recent report of the Secretary-General of the United Nations (prepared by the Department of Economic and Social Affairs) on entrepreneurship and privatization for economic growth and sustainable development, which does not fully reflect the debate and conclusions reached in UNCTAD on the role of government in MSME development.

Policy coherence between trade and micro policies

10. Policy coherence between trade and micro policies was a concern for many developing countries, particularly in view of WTO requirements which could potentially conflict with their MSME programmes. Most representatives stated that it is necessary to strengthen MSMEs so that they can cope with the intense competition of the new trading environment. Some MSMEs are able to penetrate sophisticated markets by forming interfirm links. Such interfirm cooperation was seen as a means of strengthening MSMEs via technology transfer and technology capacity-building, as well as export promotion. More work could be done by UNCTAD in examining the linkages between trade and micro policies.

Inter-firm cooperation

11. With reference to UNCTAD's findings on this subject, it was confirmed in the discussion that inter-firm cooperation is more widespread in developed countries and less so in developing countries and economies in transition. At the same time, it was stressed that the two latter groups of countries could also benefit from such cooperation, both in the North-South and in the South-South context. Successful experiences with inter-firm cooperation, in particular through clustering, in such countries as South Africa, e.g. in the industrial goods and automobile building sectors, the wheat and bakery sector, clothing and textiles and the mohair wool industry, were also discussed. In India, about 300 clusters have been formed by MSMEs themselves. It was stressed that the Government has a role to play in providing the necessary support services for technological upgrading and improving environmental performance.

12. Reference was also made to the existence of different programmes in developed countries, particularly programmes in the European Union (EU), that stimulate inter-firm linkages among firms of the EU and those from developing countries and countries in transition. At the same time, one country indicated that when MSMEs do not have a mature industrial base, it is more difficult to enter into inter-firm linkages, particularly with foreign partners, and to derive full advantage from such cooperation. An example was cited by another country where technological partnership with a TNC produced negative results in terms of developing the local partner's technological capability.

13. In referring to practical experiences, a number of delegates emphasized that successful development of inter-firm cooperation depends to a great extent on the existence of stable macroeconomic policies in cooperating countries and on support from Governments. This cooperation could also be facilitated through the development of an appropriate infrastructure, the creation and strengthening of a strong legal and institutional base, and more active participation of business associations in the development of such cooperation.

14. There was a consensus that UNCTAD should continue its work in this area. The secretariat should further examine the phenomenon of inter-firm cooperation in all its forms, including technology partnerships, clustering and networking, as well as its impact, particularly on developing countries and economies in transition. Of special concern in this respect would be the analysis of ways and means for the participation of MSMEs, on an equitable basis, in inter-firm linkages. Specific proposals were made on the further work of the secretariat. In this context, the opinion was expressed that analysis of the development of clusters in the

manufacturing industry should not be limited to the study of cooperation among enterprises in the same sector, but that it should also pay attention to the effect on manufacturing industry *per se*. Additional work would also be required in order to identify favourable conditions for inter-firm cooperation, including legal and institutional frameworks.

Support services for MSMEs at UNCTAD: Empretec

15. The Commission was briefed by the Director of DITE on the activities of the Empretec programme. It was reported that all Empretec programme activities formerly executed by the Department of Economic and Social Affairs in New York had been transferred to Geneva. The Programme is now fully executed by UNCTAD.

16. Taking into consideration 10 years of experience in designing, installing and managing national Empretec Programmes in Latin America and Africa, the secretariat is engaged in a continuous process of updating and strengthening programme elements to respond to the challenges of a globalizing and liberalizing business environment and the needs of member States. One delegation was particularly interested in knowing whether the programme is externally evaluated. To highlight only a few such external evaluations, the European Union awarded Empretec Brazil and later other Empretec projects in Latin America the ISO 9003 quality standard for organizations; UNDP's Regional Bureau for Africa funded an independent and comprehensive evaluation of the Empretec and other MSME programmes in African countries, and based on the result of such evaluation the Empretec model was chosen to be implemented in 10 new African countries.

17. In a recent symposium organized by UNCTAD, national Empretec directors, leading entrepreneurs and representatives of other MSME support programmes discussed elements of a best-practice programme to support MSMEs with high-growth potential. The findings will be incorporated into the Empretec programme, which was requested among others by Bangladesh, six Central American countries, Cuba, Egypt, Indonesia, Morocco, Pakistan, the Philippines and the CARICOM secretariat. UNCTAD will also be involved in the execution of several new African projects under UNDP's Enterprise Africa programme, including in Namibia.

18. Some delegations noted that a more balanced geographical distribution in the development of new Empretec programmes activities is needed. In this context the secretariat pointed out that UNCTAD could not initiate activities in a country unless a formal request was received from the host Government. Empretec programme activities at the national level are funded by a national public-private sector partnership with support from UNDP or other multilateral donors.

B. Services infrastructure for development and trade efficiency assessment

19. The informal discussions covered seven important topics, including presentations of the recommendations of two expert meetings. The topics were the following: recommendations on the use of information technologies to make transit arrangements more effective; recommendations on telecommunications, business facilitation and trade efficiency; new services for development; trade efficiency strategy; the legal dimension of the Trade Point programme; inter-institutional cooperation in trade efficiency; and trade efficiency assessment methodology.

1. Use of information technologies to make transit arrangements more effective

20. Many speakers emphasised the importance of this issue and the need to have efficient transit systems for all countries but in particular for the land-locked countries. The good inter-institutional cooperation on this subject was noted, in particular with UN/ECE and WCO. It was suggested that the ACIS and ASYCUDA programmes should be introduced in priority in the land-locked countries. Several least developed countries complained about the lack of participation of experts from their countries due to the unavailability of funds for them to travel from their capitals to the meeting place, even although the issue is of prime importance for them. They therefore insisted that a mechanism to finance their travel should be found.

2. Telecommunications, business facilitation and trade efficiency

21. The usefulness of the Expert Meeting was broadly recognized, as was the key role of UNCTAD regarding the development dimension of electronic commerce. Three issues of particular importance for developing countries were discussed in relation to electronic commerce: firstly, the lack of access to infrastructure and ways to make it more accessible for developing countries; secondly, the need to have programmes that will improve the level of human resources and develop capacity-building in the field of electronic commerce in developing countries; and thirdly, the need to assist developing countries in elaborating legal rules on electronic commerce that will be in tune at the international level. The need for further research on the issue of safety and security of electronic commerce transactions was referred to by several countries.

3. New services for development

3.1 Micro-finance: issues relating to the development of micro-finance

22. The informal discussions raised a number of important issues, including the economic and social impact of micro-finance; the potential of the private sector to contribute to the development of micro-finance; the role of donors in micro-finance; the role of Governments in micro-finance; and the role of UNCTAD in the development of micro-finance.

3.2 Economic and social impact of micro-finance

23. Participants emphasized the important role micro-finance plays in improving the economic and social lives of the poor. Lack of access to credit is one of the most important contributors to continued poverty. A new way of thinking about the poor is crucial to alleviating poverty, and this new way of thinking should reject seeing the poor as passive actors at whom subsidized resources must be thrown. Instead, the poor must be seen as active economic actors who can operate under market principles to establish self-sustaining enterprises that assure them income and dignity.

24. Micro-finance shows that the demand for credit among the poor is massive. Although the interest rates charged are higher than in the conventional banking system, the poor have shown remarkable ability to repay the small loans that they receive from micro-finance institutions (MFIs). Some delegations felt that the high interest rates charged may be exploitative of the poor. It was explained that this is not actually so because of the exceptionally high costs per dollar lent in

the case of micro loans, which involve close monitoring and local visits. It was also noted that micro-credit greatly increases the productivity of entrepreneurs by allowing them, for example, to procure equipment, training, vaccinations for their livestock, etc. One alternative to micro-finance is loan sharks, who charge such a high interest rate (up to 20 per cent per day in Bolivia) that the ensuing benefits of increased productivity go to them rather than to the micro-entrepreneur who has earned the increase. A second alternative is subsidized funding, which often does not reach the poor because those with power and information are able to manipulate the purse strings. A third alternative is perhaps the worst and most costly to society - complete lack of access to credit. Given these alternatives, increased efforts to popularize micro-finance among the poor is required.

25. Because the poor are willing to pay for micro-credit, micro-finance can be a viable and financially self-sustaining endeavour. Several micro-banks around the world are already self-sustaining. The move towards self-sustainability must be supported and intensified, as the most reliable way to alleviate poverty is to encourage self-sustaining systems of development. Several speakers emphasized that UNCTAD has played and can continue to play an important role in facilitating this move towards self-sufficiency by acting as a bridge between MFIs and external sources of capital. With such an approach, micro-finance will eventually become just one more part of the regular financial system in each country.

26. The issue of the link between credit and savings was raised. It was emphasized that in the longer term the main source of funds for micro-credit will be people's own savings. However, in order to reach that stage, it is first necessary to reinforce the capacity of micro-finance institutions and to enable the poor to afford the luxury of saving.

27. Most importantly it was emphasized that micro-finance is itself a sustainable solution to poverty alleviation and social development. In this context, key characteristics of micro-finance are its massive scale and outreach, as well as its ability to make a profit, thus guaranteeing its own survival.

3.3 The potential of the private sector to contribute to the development of micro-finance

28. Participants pointed out that the international capital markets have begun to recognize the tremendous opportunities for investment present in micro-finance. However, the big international banks and institutional investors are not equipped to lend directly to micro-entrepreneurs. Instead, they see themselves as a source of capital for MFIs, who would then on-lend to micro-entrepreneurs.

29. Because many MFIs do not have a clear legal status, are not currently regulated by banking authorities and cannot issue negotiable instruments, innovative ways are required to address the economic, financial, legal and administrative issues raised. Participants from international banks and asset management companies highlighted the important role UNCTAD has already played in beginning to address these issues.

30. Participants from the private sector further stressed that the appropriate legal, fiscal and economic environments remain the responsibility of the Government and that the private sector depends on the Government to ensure this enabling investment environment. Only in cases where this condition is fulfilled would international investors feel it appropriate to enter the national market.

31. A number of delegations were concerned that the suggested flow of capital from international markets could distort national financial markets. It was explained that such distortions are not peculiar to funds intended for micro-credit and, in any case, such funds are likely to represent only a small amount of total incoming funds. In addition, the flow of international investment funds to a particular economic sector often triggers and acts as a complement to local private funding.

32. Several delegations also questioned whether international investment funds to support micro-finance, funds which by definition are profit-seeking, could be squared with the goals of alleviating poverty. Concern was further expressed that such investment funds could be withdrawn at short notice, leaving MFIs and the micro-entrepreneurs they serve in the lurch. It was explained that investment funds are different from speculative funds, since investment funds would be debt securities with specified maturity dates. In addition, UNCTAD is already working with banks and investors to determine methods to establish secondary markets in debt instruments issued by MFIs, thereby providing investors with greater security.

33. Questions were raised as to why the private sector would be interested in investing in this field. It was explained that investors are seeking to diversify their sources and have determined that the micro-finance sector is not only a potentially lucrative one but also represents a huge market, with enormous potential for growth.

34. Some delegations felt that the criteria used by international investment funds would exclude investment in the poorest countries, especially those without well-developed national financial markets. It was pointed out that the poverty level of a country is not a criterion (the example of Bolivia was cited). Rather, the important criteria are economic and political stability, a predictable and transparent legal and regulatory regime, and the strength of individual MFIs. It was further pointed out that the type of debt instruments which micro-finance institutions would issue to international funds do not require a well-developed national financial market.

35. It was stressed that, obeying the laws of supply and demand, it is expected that the increased interest of the private sector in the field of micro-finance will establish a competitive environment, whereby reducing interest rates and offering the ultimate client, the micro entrepreneur, the best deal.

3.4 The role of donors in micro-finance

36. A number of speakers emphasized that donors have become increasingly aware of the importance of financial self-sustainability for MFIs. In this regard, several donors realize that their efforts in developing micro-finance should be organized in such a way as to ensure that public funding does not compete with private funding. A number of guidelines to which various donors subscribe have been developed to delineate what donors should or should not do in this area.

37. The role of donors in terms of providing support and assistance in capacity-building to MFIs was determined to be crucial. Whereas direct pouring in of "free" money might not be appropriate in many cases, support in the field of human resources and development of MFIs was considered an important role for donors.

38. Considerable interest was shown in the issue of where donor aid to MFIs should end and where private investment should begin. It was generally felt that there is no clear line. Some speakers suggested that donor money is always welcome to finance innovations and breakthroughs, whatever the stage of development of a micro-finance institution. This is because it takes some time for innovations to become self-sustaining. Other speakers suggested that donors should focus their efforts on capacity-building and directing MFIs towards direct access to international capital markets. There was general agreement that donors should avoid providing funds for direct on-lending to micro-entrepreneurs. Most participants agreed that further attention needs to be focused on the precise role donors should play in the development of micro-finance.

3.5 The role of Governments in micro-finance

39. Several delegations expressed their belief in the importance of micro-credit as a major element in the fight against poverty. A number of delegations outlined specific policies and legislation being implemented by their Governments with a view to supporting micro-finance.

40. It was generally appreciated that the role of government ought to be one of providing an enabling environment, particularly with respect to legal and regulatory issues. Several speakers were adamant that Governments ought not to be directly involved in provision of micro-finance services.

41. One delegation presented its country's new regulatory framework in support of the micro-finance sector. The framework formalizes the legal structure of MFIs and central bank supervision of their operations. International bankers and asset management executives emphasized that a recognized legal structure and central bank supervision are fundamental requirements for successful foreign investment in MFIs.

3.6 The role of UNCTAD

42. Several speakers and delegations commended UNCTAD for the pioneering work it has done in promoting the channelling of private funds to MFIs in order to enhance their self-sustainability. Private-sector practitioners emphasized UNCTAD's expertise in development issues, its wide reach to development actors in developing countries and its access to government authorities as key factors in promoting international investment in MFIs.

43. A number of participants from the private sector recognized that they would never have become involved in this sector had it not been for UNCTAD, as they themselves had little experience in the field of non-listed institutions. A representative of Axa defined the role of UNCTAD as being catalytic not only in establishing the BIL/Axa Fund but also in seeking to bring market forces together in a broader context so that more funds can be created and competition can be established, the ultimate beneficiary being the micro-entrepreneur in the developing world.

44. The UNCTAD secretariat explained that UNCTAD's role in micro-finance is one of facilitation and of support for existing micro-finance structures and not of direct provision of micro-credit services. UNCTAD's intervention in this area should be seen against its new approach of Partnership for Development, in which the private sector, NGOs, Governments and international organizations combine their efforts in the fight against poverty.

45. Practitioners agreed that it is timely and essential to bring together partners - investors, Governments and practitioners - to determine a concerted approach to micro-finance and to deal with certain specific concerns that could arise in connection with micro-finance. UNCTAD was seen as the ideal forum for this purpose.

4. Trade efficiency strategy

46. After a brief presentation of the programme's history and rationale, the trade efficiency strategy was illustrated through the examples of ASYCUDA and the Trade Point programme. Several characteristics of this strategy were underlined and discussed, including its businesslike and market-oriented approach; it was stressed in particular that Trade Points are demand-driven and designed to become financially self-sufficient as rapidly as possible. In this context, several delegations mentioned that further support and assistance would be needed to reach that objective. The idea of an external evaluation was positively received by delegations; this exercise would require specific extra-budgetary funding.

5. Legal dimension of the Trade Point programme

47. A brief description was provided of the efforts carried out in this area over the last four years. The Trade Point programme's names and logo cannot be protected on a worldwide basis, but only at the national level. UNCTAD can assist member States and their respective Trade Points in organizing and obtaining such protection. Guidelines regarding the status and operations of Trade Points could be issued by the UNCTAD secretariat but would need to remain flexible enough to be of relevance to all Trade Points. The value of the information contained in the latest *Trade Point Review* in this respect was noted with appreciation. In spite of the secretariat's efforts and the interest expressed by a majority of Trade Points, an International Federation of Trade Points has not yet been established; however, several regional fora have been created, which can partly fulfil the responsibilities of such a Federation in bringing consistency to the operations and *modus operandi* of Trade Points.

6. Inter-institutional cooperation in trade efficiency

48. The excellent cooperation between UNCTAD and ITU on the occasion of the Expert Meeting on Telecommunications, Business Facilitation and Trade Efficiency was quoted as an example to follow. Inter-institutional cooperation with UN/ECE, ITC, ITU, WCO, WIPO, WTO, UNCITRAL, WTC and OECD was encouraged, especially in connection with the issue of electronic commerce and trade efficiency in general, but further cooperation with the private sector was also highly recommended.

7. Trade efficiency assessment methodology

49. The methodology proposed was well received, and many statements were made in support of the programme. Practical proposals were made on how to improve the methodology, and it was emphasized that consultations should be held to in order to refine it.

Annex IV

PROVISIONAL AGENDA FOR THE THIRD SESSION OF THE COMMISSION

1. Election of officers

2. Adoption of the agenda and organization of work

3. The implications of the post-Uruguay Round economic environment for enterprise development, including policy issues relevant to inter-firm cooperation and clustering

4. The impact and relevance of electronic commerce on trade growth and development

5. Provisional agenda for the fourth session of the Commission

6. Other business

7. Adoption of the report of the Commission to the Trade and Development Board.

Annex V

ATTENDANCE */

1. The following States members of UNCTAD, members of the Commission, were represented at the session:

Afghanistan
Algeria
Argentina
Australia
Austria
Bangladesh
Belarus
Belgium
Bolivia
Brazil
Bulgaria
Cameroon
Chile
China
Colombia
Costa Rica
Côte d'Ivoire
Croatia
Cuba
Czech Republic
Democratic People's Republic of Korea
Denmark
Ecuador
Egypt
El Salvador
Ethiopia
Finland
France
Germany
Greece
Guatemala
Honduras
India
Indonesia
Iran (Islamic Republic of)
Iraq
Ireland
Italy
Jamaica
Japan
Jordan
Kenya
Kuwait
Libyan Arab Jamahiriya
Luxembourg
Madagascar
Malaysia
Mauritius
Mexico
Morocco
Myanmar
Netherlands
Nicaragua
Nigeria
Norway
Pakistan
Panama
Paraguay
Peru
Philippines
Poland
Portugal
Republic of Korea
Romania
Russian Federation
Rwanda
Senegal
Slovakia
Slovenia
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Thailand
The Former Yugoslav Republic of Macedonia
Trinidad and Tobago
Tunisia
Turkey
Uganda
Ukraine
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Uruguay
Venezuela
Viet Nam
Yemen

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*/ For the list of participants, see TD/B/COM.3/INF.2

2. The Department of Development Support and Management Services of the United Nations, the United Nations Commission on International Trade Law were represented at the session. The International Trade Centre UNCTAD/WTO was also represented at the session.

3. The following specialized agencies and related organization were represented at the session:

International Labour Organisation
International Monetary Fund
International Telecommunication Union

The World Trade Organization was also represented at the session.

4. The following intergovernmental organizations were represented at the session:

Agency for Cultural and Technical Co-operation
Asian-African Legal Consultative Committee
European Community
League of Arab States
Organisation for Economic Co-operation and Development
Organization of African Unity

5. The following non-governmental organization was represented at the session:

General Category

World Federation of United Nations Associations

Panellists

Economic and social impact of micro-finance

Mr. Michael Chu, President, ACCION Network, United States of America
Mr. Joaquin Henson, General Manager, KAUNLARAN (Micro Bank), Philippines
Mr. Kimanthi Mutua, General Manager of K-REP, Kenya
Mr. Francisco Otero, Founder and ex-General Manager of BANCOSOL, Bolivia
Mr. Robert Pouliot, President, RCP & Partners, Switzerland
Mr. Bernard Herman, Director, Banque International au Luxembourg (BIL), Luxembourg
Mr. Yves Lahaye, Deputy Director, BIL, Luxembourg

The role of the private sector in micro-finance

Mr. Christophe Jung, Assistant Director, Legal Department, Axa
Mr. Antoine Jozan, Senior Vice-President, Institutional Investors Department, Axa Asset Management, France
Mr. Philippe de Nouel, Vice-President, Axa Asset Management
Mr. Vincent Cornet, Director, Asset Management in Europe, Axa Asset Management
Mr. Jean-François Ruggieri, Manager, Axa Rendement, France

The role of donors in micro-finance

Mrs. Mia Adams, Managing Director, ADA, Belgium
Mrs. Kathrin Imboden, OFAE, Switzerland
Mr. Fernando Lucano, Microenterprise Department, Interamerican Development Bank, Ecuador

The role of Governments in micro-finance

Mr. Jorge Crespo, Minister of Trade and Investment, Bolivia